

Message Text

CONFIDENTIAL

PAGE 01 PORT O 01654 021436Z

51

ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-05 NSCE-00 L-01 INR-05

CIAE-00 PRS-01 SP-02 OES-02 /040 W

----- 028245

R 021324Z JUL 75

FM AMEMBASSY PORT OF SPAIN

TO SECSTATE WASHDC 8001

CONFIDENTIAL PORT OF SPAIN 1654

LIMDIS

E.O. 11652: GDS

TAGS: ENRG EINV TD US

SUBJECT: GOTTA AND TESORO RESOLVE DIFFERENCES

REF: A) POS 1359; B) POS 1388

1. SUMMARY: EMBASSY LEARNED ON A HIGHLY CONFIDENTIAL BASIS DETAILS OF AN AGREEMENT BETWEEN GOTTA AND THE U.S.-BASED TESORO PETROLEUM CORPORATION WHICH RESOLVES DISPUTE OVER INCOME TAXES TO BE PAID BY JOINT-VENTURE TRINIDAD-TESORO PETROLEUM CO. LTD. GOTTA AGREED TO RESCIND APPLICATION OF ITS UNILATERALLY-IMPOSED TAX REFERENCE PRICE ON THE COMPANY'S PRODUCTION SINCE JANUARY 1, 1974, AND THE COMPANY AGREED TO NEGOTIATE WITH GOTTA A TAX REFERENCE PRICE APPLICABLE ONLY TO ITS OFFSHORE PRODUCTION AND EFFECTIVE SEPTEMBER 30, 1975. TESORO OFFICIALS GIVE HIGH MARKS TO THEIR TRINIDADIAN CHAIRMAN, BERNAD PRIMUS, FOR SUCCESSFULLY HOLDING GOTTA TO BOTH LETTER AND SPIRIT OF THEIR JOINT-VENTURE AGREEMENT. END SUMMARY.

2. ACCORDING TO AN AMERICAN OFFICER OF THE TRINIDAD-TESORO PETROLEUM CO. LTD. (50.1 PERCENT OWNED BY GOTTA AND 49.9 PERCENT BY TESORO PETROLEUM CORP., SAN ANTONIO, TEXAS), A SERIOUS DISPUTE WHICH THREATENED TO TERMINATE THE JOINT-VENTURE AGREEMENT HAS BEEN SATISFACTORILY RESOLVED. DISPUTE AROSE WHEN GOTTA UNILATERALLY ANNOUNCED IN 1974 BUDGET SPEECH IMPOSITION OF TAX CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PORT O 01654 021436Z

REFERENCE PRICES WHICH WOULD BE USED TO FIGURE INCOME

TAX LIABILITY OF ALL PETROLEUM PRODUCERS IN TRINIDAD. THESE PRICES, IMPOSED RETROACTIVELY TO JANUARY 1, 1974, CONTRA- VENED THE GOT-TESORO JOINT-VENTURE AGREEMENT WHICH STIPULATED THAT TAXATION WOULD BE BASED UPON CRUDE OIL PRICES DETERMINED BY CRITERIA OF AN "ARM'S LENGTH TRANSACTION." TRINIDAD-TESORO PAID TAXES DUE SINCE THAT DATE UNDER PROTEST, SAYING THAT THE TAX DUE AS A RESULT OF THE REFERENCE PRICE (STILL NOT REVEALED BUT UNDERSTOOD TO BE BETWEEN 140 AND 145 PERCENT OF ACTUAL REALIZED PRICES) WAS CONFISCATORY SINCE THE PETROLEUM PROFITS TAX RATE (NOW 50 PERCENT) WOULD FORCE THE COMPANY TO OPERATE AT A LOSS. TRINIDAD-TESORO OFFICIALS REPEATEDLY TOLD GOT-T THAT TAX REFERENCE PRICE VIOLATED THEIR AGREEMENT, BUT PETROLEUM OFFICIALS SAID THAT TAXATION WAS DETERMINED BY THE FINANCE MINISTRY, AND FINANCE OFFICIALS CLAIMED THAT THEY HAD NO DISCRETION UNDER THE LAW NOT TO APPLY TAX REFERENCE PRICES TO ALL PRODUCERS. MATTER WAS EXTREMELY COMPLICATED, SINCE TESORO'S MODEST PRODUCTION (21,000 BPD) INVOLVES SEVERAL QUALITIES OF CRUDE, BOTH ON- AND OFF-SHORE, AND INCLUDES PRODUCTION FROM CONSORTIA INVOLVING GOT-T AND OTHER OIL COMPANIES.

3. SINCE MARCH OF THIS YEAR, TESORO OFFICIALS HAVE ATTEMPTED TO IMPRESS UPON GOT-T THAT THEY WOULD NOT OPERATE AT A LOSS, AND THAT THEY WOULD IF NECESSARY TAKE GOT-T TO COURT OVER TAXATION ISSUE. GOT-T OFFICIALS SEEMED INTRANSIGENT ON ISSUE, AND LOCAL OIL INDUSTRY ABOUNDED WITH RUMORS THAT GOT-T (SOME SAID PRIME MINISTER WILLIAMS) WAS DISPLEASED WITH TESORO AND INTENDED TO DRIVE THE FIRM OUT OF THE COUNTRY. NEVERTHELESS, TESORO OFFICIALS CREDIT TRINIDAD-TESORO'S CHAIRMAN BERNARD PRIMUS WITH FORCEFULLY IMPRESSING UPON GOT-T IMPORTANCE OF UPHOLDING JOINT-VENTURE AGREEMENT, AND GOT-T EVENTUALLY AGREED TO CALCULATE TRINIDAD-TESORO'S TAXES FROM JANUARY 1, 1974 THROUGH SEPTEMBER 30, 1975 ON REALIZED PRICES INSTEAD OF THE TAX REFERENCE PRICE, AND TO CREDIT ADDITIONAL TAXES ALREADY PAID TO FUTURE TAX LIABILITIES. FOR ITS PART, TESORO AGREED TO ACCEPT FUTURE IMPOSITION (FROM SEPTEMBER 30) OF A TAX REFERENCE PRICE ON ITS OFFSHORE PRODUCTION AND ITS PRODUCTION FROM PARTICIPATION

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PORT O 01654 021436Z

IN CONSORTIA WITH OTHER OIL COMPANIES.

4. COMMENT: RESOLUTION OF THIS DISPUTE IS IMPORTANT SINCE TRINIDAD-TESORO IS THE OLDEST AND MOST PROMINENT JOINT VENTURE IN WHICH THE GOT-T HAS ENTERED, AND IT COMES AT A TIME WHEN THE GOT-T IS ENGAGED IN HIGHLY-PUBLICIZED EFFORTS TO ATTRACT MAJOR INDUSTRIAL FIRMS AS JOINT- VENTURE PARTNERS IN AN AMBITIOUS INDUSTRIAL DEVELOPMENT

PROGRAM. IT ALSO SHOULD STRENGTHEN PRIMUS' HAND IN
DEALING WITH POTENTIAL INVESTORS (HE IS CHAIRMAN OF THE
GOVERNMENT'S INDUSTRIAL DEVELOPMENT CORPORATION) AND IN
NEGOTIATIONS WITH TEXACO (HE IS HEAD OF A FIVE-MAN TEAM
APPOINTED TO NEGOTIATE A GOTT PARTICIPATION IN TEXACO'S
TRINIDAD INVESTMENTS -- SEE REF B).

RICH

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, DISPUTE SETTLEMENT, INVESTMENTS, INCOME TAXES, JOINT VENTURES
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JUL 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975PORTO01654
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750229-0615
From: PORT OF SPAIN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750791/aaaadduf.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 75 PORT OF SPAIN 1359, 75 PORT OF SPAIN 1388
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 11 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 SEP 2003 by RowellEO>; APPROVED <12 SEP 2003 by GarlanWA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOTT AND TESORO RESOLVE DIFFERENCES
TAGS: ENRG, EINV, TD, US, TESORO PETROLEUM CORP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006